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EXHIBITION 5-7

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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

11 MAY 1966

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MEMORANDUM FOR: (See attached list of Addressees)

SUBJECT : Fiat-USSR Automotive Agreement

1. The attached report assesses the agreement concluded on 4 May between the USSR and the Fiat Company. Although details are lacking, it seems clear that the agreement signifies a major shift in Soviet policy toward the consumer.
2. The deal with Fiat represents the first time in its post-war history that the USSR has called upon a Western firm to modernize an entire industry. In doing so, the Soviets have complicated their already difficult foreign exchange position, even though the Italians have provided a nine-year credit of \$320 million.
3. The agreement will be taken by the Soviet consumer as concrete evidence that the regime is serious about improving standards of living. It also constitutes an implied admission that the Soviet machinery industry was unable to do the job unaided -- an admission with possible implications for Soviet sales of machinery abroad. A larger automobile industry will require the USSR to face up to severe deficiencies in roads and in service and repair facilities, whose correction may require as large an investment as that needed to expand the production of automobiles.

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WILLIAM N. MORELL, JR.
Director
Research and ReportsAttachment
CIA/RR EM 66-16 (Subject Report)

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(10 May 66)